THINKSMART

THINKSMART LIMITED

CHAIRMAN'S ADDRESS: ANNUAL GENERAL MEETING, 24 MAY 2012

I am pleased to report that during 2011 we made significant progress with our business transformation agenda and delivered a solid financial result. Our goal remains to be an innovative provider of financial services products to consumers at the point of sale through multi-channel retailers.

While we are operating in a challenging environment – one that has become much more difficult as we have moved into 2012 – we continue to focus on building a business that will deliver sustainable growth from a range of products across multiple categories in two significant territories.

We have made important enhancements to our business during 2011:

- We have diversified our product offering. In October, we launched new Business-to-Consumer ("B2C") products focussed on the fast growing tablet market in both Australia and the UK. The UK product, Infinity, has been a significant success and we anticipate almost doubling UK B2C volumes in 2012 for the second consecutive year;

- Further, and most significantly, we prepared for the launch of two new products in 2012 which we anticipate will materially enhance our growth trajectory: Fido, our "no interest ever" product, launched in Australia in February 2012, and ThinkSmart Business Leasing (TBL) launched in the UK two months later;

- We have established a new funding platform which significantly increases our undrawn committed funding capacity to over $125 million from our funding partners in Australia and the UK. This means we have diversified our sources of funding and are well placed to support our projected growth in 2012 and beyond;

- We have also concentrated our focus on our AU and UK businesses by exiting our operations in Spain and Italy. Both mainland Europe economies have been hard hit by the GFC and so we are now devoting our energies on significant opportunities in our two core markets; and

- The expansion of our Board and management team is now complete. With a new Group CFO, a new Managing Director in the UK and a new Head of Sales in Australia we now have the appropriate depth of experience and expertise to deliver our plans for sustainable growth.

The financial results reflect a solid financial performance in 2011 - Net Profit After Tax of $6.8 million was in line with 2010. On a normalised basis with constant currency Net Profit After Tax was up 20% on 2010.

Revenues in 2011 increased by 8% to $45.5 million and we have continued to reduce our cost of business to 21% from 22% in 2010.

Our business in the UK delivered the stand-out result with pre-tax profit increasing 61% to $7.0 million. Our ability to launch new products which resonate with consumers is evident with the launch of new Infinity B2C products in Dixons, the leading electrical retailer in the UK – these helped UK revenues increase by 20% and assets under management increase by 14%.

In Australia, revenue increased by 8% to $29.5 million. Assets under management declined by 5% due to a combination of factors including the impact of the Australian dollar on retail prices which impacted our average transactions values and a deliberate tightening of our credit approval standards.

Looking forward now, I will update on our outlook for 2012 and beyond.

2012 is a year of investment for ThinkSmart. We are laying the foundations for a more profitable and sustainable business – a business that will provide strong asset growth at attractive margins in two significant territories and which will build significant value for shareholders.

We started this journey two years ago with a view to repositioning ThinkSmart as a leading online financial services marketplace. Our aim is to provide innovative consumer financial services products at the point of sale through multi-channel retailers. This year we have already launched new products, both online and in store, with full e-signatures processes as vehicles to facilitate this growth. These products resonate strongly in today's market.

We have invested heavily in systems, people and funding structures to deliver this transition. I am pleased to say that our products have launched here and in the UK and are now writing new business in markets we have not participated in before. Our new funding platform, which has required significant financial and resource investment, is a matter of weeks from completion.

It is important also to reflect on our change to lease accounting. This is effective for the first time in 2012 and has the effect of reducing profit in the year a contract is originated but increasing total profits over the life of the contract. The benefits of this change will be evident in our results in 2013 and beyond.

There has been a marked and well published deterioration in the Australian retail market for electrical goods in the last few months. We are witnessing a significant level of deep discounting as retailers fight for market share. The effect has been profound and has resulted in negative trading updates by major retailers in recent weeks, including from one of our key retail partners, JB Hi-Fi.

Another of our key retail partners is Dick Smith and we have witnessed a marked decline in volumes through the Dick Smith channel in 2012. The programme of store closures by Dick Smith is one factor in the decline. We are also witnessing a negative impact on trading from the protracted and on-going sale process.

As discounts have become deeper we have witnessed a decline in both the volume of transactions and also the average value of each transaction. As a consequence, we now expect the value of new business sales from our Australia rental products in 2012 to be around 20% below 2011.

Clearly, the current level of discounting by retailers will undoubtedly act as a drag on our results this year. However, if industry consolidation is the permanent outcome of the recent closure of both stores and retailers then we are well placed to benefit because of our relationships with key market players. JB Hi-Fi, for example, expects to increase its store numbers by 33% over the next five years. Any such benefit can be expected in 2013 and beyond.

It is important to note that while volumes have reduced we believe this to be a short term trend and so we have maintained the margins of our rental products. We are looking through the downturn in the cycle to ensure our profitability is not compromised when the volumes return. Our response has focussed on refreshing our rental products to increase their appeal to consumers; these changes will take effect from July. The product refresh benefits from the experience we have built in the UK where we succeeded in growing revenues during the worst of their downturn.

In contrast to Australia, our rental products in the UK continue to perform well and are growing in line with our expectations. While the macro economic situation in the UK shows no signs of improving in the near term we continue to see growth from our UK business. Our strong and long-term relationship with Dixons is of increasing importance as Dixons continues to build its market share. Importantly, the early signs from our new B2B product, TBL, are positive. Not only will TBL generate additional business with attractive margins but this business will be generated from markets in which we do not currently operate.

The pressures facing our rental products in Australia emphasise the importance of the diversification strategy we commenced in 2011. In particular, our entry in February to the "no interest ever" market with our Fido product has opened up many new high margin retail categories. Fido will help broaden not only our products but also our markets – none of the retailers we are currently trading with are in the electrical sector.

Importantly, Fido launched with a relatively low level of investment for the size of the market in which it competes because we have been able to leverage our existing operating platform and skill-sets.

Three months into its product life our medium and long term expectations for Fido are undiminished. There is significant interest in the product and Fido is adequately differentiated from its competitors because of a best in class approval and settlement process and superior service to the retailer. However, it is taking longer to fully launch Fido because of a tougher than anticipated competitive environment.

One of the largest incumbent providers has insisted on exclusive arrangements – forcing retailers to choose between it and Fido. As a result we have changed our distribution strategy evolving from wide distribution on a non-exclusive basis to a strategy that combines exclusive and non-exclusive relationships. While Fido has a presence in initially fewer stores than originally envisaged we anticipate a higher volume of business from each Fido store. This approach is expected to deliver similar volumes of business and so our medium and long term expectations for Fido are unchanged.

It is worth providing one example of the impact of this change in strategy. At launch in February we had secured distribution with one significant jewellery retailer. When forced to choose one exclusive payment plan provider this retailer elected to retain the incumbent provider. While this was disappointing it has been more than offset by our agreement to exclusive terms with an alternative jewellery retailer, initially in around 150 stores. We expect a significantly higher value of business from our new exclusive retail partner than we would expect from a retailer partner with multiple payment plan providers.

In February we referred to our plans to finalise the transition to our securitised funding model in Q2 of this calendar year and we have been financing new business in this way since March. However, delays in the finalisation of arrangements with one funder mean we remain unable to lease account for certain of our assets. While we expect to complete all documentation with this Bank by the end of June, still within Q2, this is a few months later than expected. The consequence of this has been a negative impact on profit in the first half of 2012 of around $1.0 million. This has no impact on our financial results beyond the first half of 2012.

Our earlier guidance of NPAT of $5.6 million was heavily weighted to the second half with a break-even result in the first half. Due to the impact of the exceptionally difficult retail environment that now exists in Australia and the delayed completion of our new funding platform, we now anticipate reporting a loss for the first six months in the region of approximately $2 million. However, we expect to return to profit in the second half of the year leading to a reported full year profit, albeit at a level materially lower than our earlier guidance.

If we deliver to our plans, we anticipate the benefits from the move to lease accounting and the launch of our new products to lead to record annual profits in 2013.

Your Board remains committed to the reinstatement of a dividend at the earliest appropriate time. We had planned for this to occur in the second half of 2012. Whether this occurs is dependent upon our full year financial results.

In summary, 2012 will be a year of investment for ThinkSmart. Our financial results will reflect the investments we are making as our new products are launched and our new funding platform is finalised. At the same time we are dealing with some meaningful headwinds, particularly from the economic environment. We are committed to look through the downturn in the cycle so that we are well placed as and when conditions improve to build sustainable value.

Despite these tough conditions in the electrical sector in Australia, we expect good growth in total assets under management during 2012. While assets under management have remained flat over the last three years, meaningful growth will be stimulated by the launches of our new products.

And so, despite lower financial returns during 2012, we are confident that our underlying businesses will strengthen. Our business will be well positioned for sustainable growth across a number of products and markets.

Your Board is disappointed with our current share price and feels that there is much value to be unlocked. We are committed to this task and feel that the hard work of the last two years will deliver this value to our shareholders in 2013 and beyond.

Clearly, these are challenging times. But they are also exciting times and we are well placed to seize opportunities. With our enhanced range of products across multiple markets and within two significant territories we are confident the business is positioned to provide superior and sustainable returns to shareholders.

I would like to take this opportunity to thank all of our staff across Australia and the UK for their continued hard work and enthusiasm. The significant steps taken in 2011 towards our new funding model and the launch of our new products could not have been taken without significant levels of commitment. I would like to offer the thanks of your Board to the many people who worked diligently and professionally to see our objectives achieved.

Finally, I would like to also thank my fellow directors and our shareholders for their contribution and continued support throughout the year.